

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2008**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* CITY OF ADRIAN DIAL-A-RIDE PROGRAM	County* LENAWE	Type* AUTHORITY	MuniCode* 46-7-515
Opinion Date-Use Calendar* Sep 25, 2008	Audit Submitted-Use Calendar* Nov 21, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text"/> \$ 354,789.00
General Fund Expenditure:	<input type="text"/> \$ 550,116.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="text"/> \$ 1,016,328.00
Governmental Activities Long-Term Debt (see instructions):	<input type="text"/> \$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* GARY	Last Name* OWEN	Ten Digit License Number* 1101008646		
CPA Street Address* 121 N MAIN ST	City* ADRIAN	State* MI	Zip Code* 49221	Telephone* +1 (517) 265-6154
CPA Firm Name* ROBERTSON, EATON, & O'NEILL	Unit's Street Address* 121 N MAIN ST	Unit's City* ADRIAN	Unit's Zip* 49221	

September 25, 2008

City of Adrian  
State of Michigan

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of net assets of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan as of June 30, 2008 and 2007, and the related statements of revenues, expenditures and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of the Dial-A-Ride System Enterprise Fund of the City of Adrian, Michigan. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

***Robertson, Eaton & Owen, P.C.***

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**STATEMENTS OF NET ASSETS**

**June 30, 2008 and 2007**

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
<b>Current assets:</b>		
Due from other governments	\$ 298,920	\$ 46,204
Accounts Receivable	<u>2,509</u>	<u>707</u>
Total current assets	301,429	46,911
<b>Capital assets:</b>		
Vehicles, less accumulated depreciation of \$322,329 and \$371,114, respectively	<u>1,057,840</u>	<u>265,192</u>
Total assets	<u>\$ 1,359,269</u>	<u>\$ 312,103</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Due to General Fund	\$ 83,746	\$ 33,056
Due to other governmental units	6,543	6,543
Vouchers payable	<u>252,652</u>	<u>7,312</u>
Total current liabilities	<u>342,941</u>	<u>46,911</u>
<b>Net assets:</b>		
Invested in capital assets – net of related debt	<u>1,016,328</u>	<u>265,192</u>
Total net assets	<u>\$ 1,016,328</u>	<u>\$ 265,192</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS**  
**For the Years Ended June 30, 2008 and 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
Operating revenues:	\$ 100,066	\$ 99,806
Operating expenses:	<u>(550,116)</u>	<u>(487,901)</u>
Operating loss	(450,050)	(388,095)
Nonoperating revenues:	<u>254,723</u>	<u>234,326</u>
Loss before transfers and contributions	(195,327)	(153,769)
Transfer – General Fund of City of Adrian	100,816	91,411
Capital contribution – Grants	<u>845,647</u>	<u>74,819</u>
Change in net assets	751,136	12,461
Total net assets – beginning	<u>265,192</u>	<u>252,731</u>
Total net assets – ending	<u><b>\$ 1,016,328</b></u>	<u><b>\$ 265,192</b></u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2008 and 2007**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 98,264	\$ 99,419
Cash paid to suppliers	(244,634)	(214,949)
Cash paid to employees	<u>(217,181)</u>	<u>(206,101)</u>
Net cash used in operating activities	<u>(363,551)</u>	<u>(321,631)</u>
<b>Cash flows from noncapital financing activities:</b>		
Grant received - Federal	72,344	75,836
Grant received - State	181,213	157,444
Operating transfers from General Fund	<u>109,994</u>	<u>88,351</u>
Net cash provided by noncapital financing activities	<u>363,551</u>	<u>321,631</u>
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2008 and 2007**  
**RECONCILIATION OF OPERATING LOSS TO NET CASH**  
**USED IN OPERATING ACTIVITIES**

	<u><b>2008</b></u>	<u><b>2007</b></u>
Operating loss	<u>\$ (450,050)</u>	<u>\$ (388,095)</u>
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>		
Depreciation	94,511	62,358
<b>Changes in Assets and Liabilities;</b>		
Increase (decrease) in accounts receivable	(1,802)	(387)
Increase (decrease) in vouchers payable	(6,210)	6,133
Increase (decrease) in due to County	<u>                    </u>	<u>(1,640)</u>
Total adjustments	<u>86,499</u>	<u>66,464</u>
Net cash used in operating activities	<u>\$ (363,551)</u>	<u>\$ (321,631)</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The records of the Dial-A-Ride System Enterprise Fund are maintained on the accrual basis of accounting, as prescribed by the State of Michigan.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. PROPERTY ASSETS**

Vehicles are stated at cost or fair market value at date of gift. The vehicles in use by the Dial-A-Ride System Enterprise Fund are purchased by the State. If the program should end, the vehicles would be returned to the State. The buses are depreciated over four years on a straight line basis.

Radios, computer equipment, and office furnishings have also been received from the State and are being depreciated over four, five, and ten years, respectively, on a straight line basis.

Property assets on the balance sheet at June 30, 2008 are:

Land	\$ 22,868
Building	816,207
Radios	31,242
Equipment and office furnishings	17,892
Vehicle cost	491,960
Less: Accumulated depreciation	(322,329)
	<u>\$ 1,057,840</u>

**3. COMMITMENTS**

The City of Adrian has contracted with Quick Service Transportation Company of Adrian, Michigan to operate the Dial-A-Ride System Enterprise Fund. The City of Adrian pays the Transportation Company \$338 per month for rental of a dispatch center and bus parking area, \$1,400 per month for administrative duties and makes reimbursement for all direct expenses of Dial-A-Ride.

**4. TRANSPORTATION AGREEMENT AND COST ALLOCATION**

The Dial-A-Ride System provides semi-fixed route service to the City of Adrian residents. The Lenawee Transportation Corporation (LTC) operates a separate service for Lenawee County residents. On September 17, 1984, LTC and the City of Adrian entered into an agreement to provide public transportation to both service areas by sharing in a transportation coordinator, clerical and support assistance, and office space.



**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**4. TRANSPORTATION AGREEMENT AND COST ALLOCATION (Continued)**

LTC pays the wages and fringe benefits of the transportation coordinator, and the City of Adrian provides the clerical and support assistance, and office space for LTC.

At this time, a formula has been worked out for the allocation of costs between Lenawee Transportation Corporation and the City of Adrian. This formula or allocation plan has been accepted by the Michigan Department of Transportation. Based on this plan, the allocated costs have been determined for the year. The difference in the allocated costs between the two units has been set up as a receivable or payable by the applicable unit.

**5. CAPITAL GRANTS**

In fiscal year 2007-08, the Dial-A-Ride System Enterprise Fund had the following capital grant activity:

<u>Capital Grant Contract Number</u>	<u>Grant Award</u>	<u>2007-08 Expenditures</u>	<u>Prior Year Expenditures</u>	<u>Remaining Grant</u>
2000-0460/A4	\$ 490,649	\$ 250,526	\$ 162,408	\$ 77,715
2001-0527/A2	417,565		96,688	320,877
2001-0850/A2	468,750	426,418	42,332	
2002-0002-Z4/R1	150,000			150,000
2002-0002-Z12	60,000	51,061		8,939
2002-0002-Z10	16,000	2,714	12,778	508
2007-0156-Z2	110,000	106,755		3,245
BF-9656207 (EPA)	Facilities Costs	10,886	-	-

**6. CHANGES IN CAPITAL CONTRIBUTIONS**

Changes in capital contributions for the year ended June 30, 2008 consist of the following:

	<u>State And Federal</u>	<u>Local</u>	<u>Total</u>
Balance - July 1, 2007	\$ 265,192	\$ -	\$ 265,192
<b>Add:</b>			
New capital assets-Grant Funds	845,648		845,648
<b>Deduct:</b>			
Depreciation	(94,512)		(94,512)
Balance - June 30, 2008	\$1,016,328	\$ -	\$1,016,328

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**7. INELIGIBLE EXPENSES**

Ineligible expenses are classified appropriately to the definition in the Local Public Revenue and Expense Manual. The following are adjustments to eligible expenses:

**Depreciation**

Depreciation expense is a non-allowable expense because all capital assets were purchased with State or Federal dollars.

**Audit fee**

Audit fee is an allowable expense under Section 531 I funding if there was a single audit of the organization in the prior year.

**Grant reimbursement**

Grant funding of repair items, which were expended, are offset against such expenses.

**County reimbursement**

County will pay City for difference in Transportation Coordinator's cost related to City's expenses compared to County's expenses – see Note 4. This reimbursement is an offset against related expenses.

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**

**OPERATING REVENUES**

**For the Years Ended June 30, 2008 and 2007**

	<u>7/01/07</u> <u>To</u> <u>9/30/07</u>	<u>10/01/07</u> <u>To</u> <u>6/30/08</u>	<u>7/01/06</u> <u>To</u> <u>9/30/06</u>	<u>10/01/06</u> <u>To</u> <u>6/30/07</u>
<b>Operating revenues:</b>				
Fares – Demand response	\$ 20,834	\$ 73,165	\$ 20,908	\$ 70,224
Other	<u>701</u>	<u>5,366</u>	<u>3,509</u>	<u>5,165</u>
Total operating revenues	<u>\$ 21,535</u>	<u>\$ 78,531</u>	<u>\$ 24,417</u>	<u>\$ 75,389</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**

**OPERATING REVENUES**

**For the Years Ended September 30, 2007**

	<b>10/01/06 To <u>6/30/07</u></b>	<b>7/01/07 To <u>9/30/07</u></b>	<b><u>Total</u></b>
<b>Operating revenues:</b>			
Fares – Demand response	\$ 70,224	\$ 20,834	\$ 91,058
Other	<u>5,165</u>	<u>701</u>	<u>5,866</u>
Total operating revenues	<u>\$ 75,389</u>	<u>\$ 21,535</u>	<u>\$ 96,924</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NONOPERATING REVENUES**

**For the Years Ended June 30, 2008 and 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>State of Michigan Operating Grant -</b>		
Formula Operating Assistance (Act 51) -		
State's current year	\$ 126,409	\$ 122,685
Formula Operating Assistance (Act 51)		
State's prior year ended September 30, 2007	48,002	38,118
Formula Operating Assistance (Act 51) -		
other prior years	-	1,718
<b>U.S. D.O.T. -</b>		
Operating Grant - Section 5311 -		
State's current year	55,965	50,826
Operating Grant - Section 5311 – State's		
prior year ended September 30, 2007	21,634	20,979
Capital Grant – Section 5311 – Bus Maintenance	<u>2,713</u>	<u>          </u>
Total nonoperating revenues	<u><b>\$ 254,723</b></u>	<u><b>\$ 234,326</b></u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**

**OPERATING EXPENSES**

**For the Year Ended June 30, 2008**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<b>Labor:</b>				
Salaries and wages	\$ 217,181	\$	\$	\$ 217,181
Other salaries and wages	15,400		2,100	17,500
Fringe benefits	92,709			92,709
<b>Services:</b>				
Advertising			377	377
Other services	478	48,287	4,817	53,582
<b>Materials and supplies consumed:</b>				
Fuel and lubricants	58,263			58,263
Other materials and supplies	2,909		1,988	4,897
<b>Utilities:</b>				
Telephone	1,703			1,703
Casualty and liability insurance costs	5,309			5,309
Leases and rentals	3,718			3,718
Miscellaneous	365			365
Depreciation	<u>94,512</u>	<u>          </u>	<u>          </u>	<u>94,512</u>
For year ended June 30, 2008	<u>\$ 492,547</u>	<u>\$ 48,287</u>	<u>\$ 9,282</u>	<u>\$ 550,116</u>
For year ended June 30, 2007	<u>\$ 436,077</u>	<u>\$ 44,714</u>	<u>\$ 7,110</u>	<u>\$ 487,901</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS**  
**For the Year Ended June 30, 2008**

	<u>Grants</u>	<u>Operation</u>	<u>Total</u>
Labor	\$	\$ 217,181	\$ 217,181
Other salaries and wages		17,500	17,500
Fringe benefits		92,709	92,709
Services		53,959	53,959
Materials and supplies		63,160	63,160
Utilities		1,703	1,703
Casualty and liability costs		5,309	5,309
Depreciation		94,512	94,512
Leases and rentals		3,718	3,718
Miscellaneous (Back property taxes paid on property acquired)	_____	<u>365</u>	<u>365</u>
	<u>\$ -</u>	<u>\$ 550,116</u>	<u>\$ 550,116</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OBLIGATIONS**  
**For the Year Ended June 30, 2008**

	<u>Federal Section 5311</u>		<u>State Operating Assistance</u>	
	<u>MI-18-X041</u>	<u>2007-0156-Z3</u>		
	<u>7/01/07</u>	<u>10/01/07</u>	<u>7/01/07</u>	<u>10/01/07</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>To</u>
	<u>9/30/07</u>	<u>6/30/08</u>	<u>9/30/07</u>	<u>6/30/08</u>
<b>Expenses:</b>				
Labor	\$ 54,312	\$ 162,869	\$ 54,312	\$ 162,869
Other salaries and wages	5,297	12,203	5,297	12,203
Fringe benefits	21,661	71,048	21,661	71,048
Services	7,950	46,009	7,950	46,009
Materials and supplies	11,877	51,283	11,877	51,283
Utilities	376	1,327	376	1,327
Casualty and liability costs	1,327	3,982	1,327	3,982
Depreciation	23,628	70,884	23,628	70,884
Leases and rentals	1,014	2,704	1,014	2,704
Miscellaneous		365		365
Total expenses	<u>127,442</u>	<u>422,674</u>	<u>127,442</u>	<u>422,674</u>
Less ineligible expenses -				
Depreciation	(23,628)	(70,884)	(23,628)	(70,884)
Grant reimbursement	<u>(701)</u>	<u>(2,012)</u>	<u>(701)</u>	<u>(2,012)</u>
Total ineligible expenses	<u>(24,329)</u>	<u>(72,896)</u>	<u>(24,328)</u>	<u>(72,896)</u>
Total eligible expenses	<u>\$ 103,113</u>	<u>\$ 349,778</u>	<u>\$ 103,113</u>	<u>\$ 349,778</u>
Maximum Section 5311				
Reimbursement - 16%		<u>\$ 55,964</u>		
Reimbursement - 17%				
(Includes adjustment of first nine months)	<u>\$ 17,529</u>			
State Assistance -				
Limited To 40.0365%			<u>\$ 45,802</u>	
(Includes adjustment of first nine months)				
Limited to 36.1508%				<u>\$ 126,448</u>



**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OBLIGATIONS**  
**For the Year Ended September 30, 2007**

	<u>Federal Section 5311</u> <u>MI-18-X041</u>			<u>State Operating</u> <u>Assistance</u>		
	<u>10/01/06</u> <u>To</u> <u>6/30/07</u>	<u>7/01/07</u> <u>To</u> <u>9/30/07</u>	<u>Total</u>	<u>10/01/06</u> <u>to</u> <u>6/30/07</u>	<u>7/01/07</u> <u>To</u> <u>9/30/07</u>	<u>Total</u>
<b>Expenses:</b>						
Labor	\$ 150,157	\$ 54,312	\$ 204,469	\$ 150,157	\$ 54,312	\$ 204,469
Other salaries and wages	15,530	5,297	20,827	15,530	5,297	20,827
Fringe benefits	70,482	21,661	92,143	70,482	21,661	92,143
Services	42,016	7,950	49,966	49,966	7,950	49,966
Materials and supplies	36,676	11,877	48,553	36,676	11,877	48,553
Utilities	889	376	1,265	889	376	1,265
Casualty and liability costs	3,991	1,327	5,318	3,991	1,327	5,318
Depreciation	46,768	23,628	70,396	46,768	23,628	70,396
Leases and rentals	<u>3,380</u>	<u>1,014</u>	<u>4,394</u>	<u>3,380</u>	<u>1,014</u>	<u>4,394</u>
Total expenses	<u>369,889</u>	<u>127,442</u>	<u>497,331</u>	<u>369,889</u>	<u>127,442</u>	<u>497,331</u>
Less ineligible expenses -						
Depreciation	(46,768)	(23,628)	(70,396)	(46,768)	(23,628)	(70,396)
Grant reimbursement	(3,935)	(701)	(4,636)	(3,935)	(701)	(4,636)
County reimbursement	<u>(1,230)</u>		<u>(1,230)</u>	<u>(1,230)</u>		<u>(1,230)</u>
Total ineligible expenses	<u>(51,933)</u>	<u>(24,329)</u>	<u>(76,262)</u>	<u>(51,933)</u>	<u>(24,329)</u>	<u>(76,262)</u>
Total eligible expenses	<u>\$ 317,956</u>	<u>\$ 103,113</u>	<u>\$ 421,069</u>	<u>\$ 317,956</u>	<u>\$ 103,113</u>	<u>\$ 421,069</u>
Maximum Section 5311 Reimbursement - 17%			<u>\$ 71,582</u>			
State Assistance - Limited To 40.0365%						<u>\$ 168,581</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**VEHICLE MILES AND HOURS REPORT**  
**For the Year Ended June 30, 2008**

<u>Demand – Response</u>		Public Transportation <u>Mileage</u>	Week Day <u>Hours</u>
First	Quarter – 7/1/07 to 9/30/07	\$ 34,820	\$ 2,858
Second	Quarter – 10/01/07 to 12/31/07	36,138	3,019
Third	Quarter – 1/1/08 to 3/31/08	37,250	3,149
Fourth	Quarter – 4/1/08 to 6/30/08	<u>36,692</u>	<u>3,180</u>
		\$ 144,900	\$ 12,206

There are no weekend miles or hours.

**NOTE:** The methodology used for compiling mileage and hours has been reviewed and found to be an adequate and reliable method for recording vehicle mileage and hours.

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**VEHICLE MILES AND HOURS REPORT**  
**For the Year Ended September 30, 2007**

<u>Demand – Response</u>		<b>Public Transportation <u>Mileage</u></b>	<b>Week Day <u>Hours</u></b>
First	Quarter – 10/1/06 to 12/31/06	\$ 35,756	\$ 3,067
Second	Quarter – 1/01/07 to 3/31/07	37,430	3,180
Third	Quarter – 4/1/07 to 6/30/07	35,970	3,049
Fourth	Quarter – 7/1/07 to 9/30/07	34,820	2,858
		<u>\$ 143,976</u>	<u>\$ 12,154</u>

There are no weekend miles or hours.

**NOTE:** The methodology used for compiling mileage and hours has been reviewed and found to be an adequate and reliable method for recording vehicle mileage and hours.

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE ENTERPRISE FUND**  
**NONURBAN REGULAR SERVICE REVENUE REPORT**  
**FOR YEAR ENDED SEPTEMBER 30, 2007**

<u>Description</u>	<u>Amount</u>
<b>Fairbox Revenue:</b>	
Passenger fares	\$ 91,058
<b>NonTransit Revenues</b>	
Grant reimbursement on bus maintenance (Federal Section 5311)	4,636
County reimbursement on coordinator's cost	1,230
<b>State formula and contracts:</b>	
State operating assistance	153,157
<b>Federal contracts:</b>	
Federal Section 5311 (operating funds only)	<u>67,416</u>
 Total revenues	 <u>\$ 317,497</u>

**CITY OF ADRIAN, MICHIGAN**  
**DIAL-A-RIDE SYSTEM ENTERPRISE FUND**  
**NONURBAN REGULAR SERVICE EXPENSE REPORT**  
**FOR YEAR ENDED SEPTEMBER 30, 2007**

<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Gen. Admin.</u>	<u>Total</u>
<b>Labor:</b>				
Operators salaries and wages	\$ 204,469	\$	\$	\$ 204,469
Other salaries and wages	18,200		2,627	20,827
<b>Fringe benefits:</b>				
Other fringe benefits	91,721			91,721
Pensions	422			422
<b>Services:</b>				
Advertising fees			405	405
Audit cost			2,450	2,450
Other service		47,111		47,111
<b>Material and Supplies:</b>				
Fuel and lubricants	44,172			44,172
Other material and supplies	2,567		1,814	4,381
<b>Utilities:</b>				
Telephone	1,265			1,265
<b>Insurance:</b>				
Liability insurance	5,318			5,318
<b>Operating Leases and Rentals:</b>				
Operating leases and rentals	4,394			4,394
<b>Depreciation:</b>				
Depreciation	70,396			70,396
<b>Ineligible Expenses:</b>				
Ineligibl depreciation	70,396			70,396
Other ineligible Operating Expense paid by Capital Contract (FSL)	4,636			4,636
County reimbursement of Coordinator's cost			1,230	1,230
Total expenses				497,331
Total ineligible				76,262
Total eligible expenses				421,069

September 25, 2008

Honorable Mayor and  
Members of the City Commission  
City of Adrian, Michigan

We appreciate the opportunity to conduct your audit this year. We are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and whether these deficiencies (if any) are determined to be significant deficiencies or material weaknesses.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan, for period ending June 30, 2008, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. It is important to note that control deficiencies are not necessarily problems you will choose to address, however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks.

Significant Deficiencies

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control. During our audit we found one significant deficiencies in internal control.

Materials Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. During our audit we found no material weaknesses.

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards No. 112 titles *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

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Honorable Mayor and  
Members of the City Commission  
City of Adrian, Michigan

Condition

Currently, the City's Finance Department prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The Finance Department of the City does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards No. 112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

In addition, other matters concerning the City and its operation are reported to you in the remainder of this report.

**Capital Assets for Internal Service Funds**

The City has two internal service funds – the Information Technology Fund and the Fire Department Motor Pool Fund. These funds provide services to other funds of the City. To have a truer picture of what costs these funds are incurring to provide these services, the City should consider capitalizing the capital assets used by the internal service funds, and showing related depreciation as expense in these funds.

**Cash Management Procedures – Library**

To strengthen internal control procedures in the area of cash, the City should review procedures at the City Library and make revisions for improvement.

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Honorable Mayor and  
Members of the City Commission  
City of Adrian, Michigan

**Retirement Plan**

The actuarial report on the City's defined benefit pension plan (MERS) as of December 31, 2007 showed the unfunded actuarial accrued liability at \$7,205,491. The unfunded actuarial accrued liability at December 31, 2006 was \$5,872,651. The actual City's contributions to the pension plan was \$1,173,432 for the fiscal year 2007-08 compared to \$816,109 for fiscal year 2006-07.

**Financial Condition**

The City continues to maintain a good financial position. General Fund's fund balance was \$5,867,914 at June 30, 2008. The undesignated fund balance was \$1,339,725.

The new Downtown City Government Complex and its total projected cost between \$5 to \$6 million dollars will probably affect financial reserves of the City. Currently, the City has designated \$2,250,000 in General Fund's fund balance for this project.

All funds of the City had positive fund balances at June 30, 2008.

Again we appreciate the assistance provided by the City during our audit.

***Robertson, Eaton & Owen, P.C.***